



STATE BUDGET 2008-09: SPECIAL SESSION

UNPRECEDENTED DECISIONS IN AN EXTRAORDINARY SITUATION

SUDDEN CHANGES IN OUR ECONOMY DEMAND A COMBINATION OF DIFFICULT CUTS AND NEW REVENUES

Economic conditions have deteriorated radically since the Governor signed the 2008 Budget Act on September 23. The volatility in our nation's financial markets has affected our budget – which is too reliant on Wall Street gains – to a point where the state faces the very real possibility of running out of the necessary cash to meet all its obligations. Critical state services could be jeopardized. California is facing a hole of \$11.2 billion in lower revenues than when the state budget was signed just six weeks ago. To remedy the urgent situation, the Governor is prescribing a combination of cuts and revenue increases – all of which must be taken as quickly as possible to prevent a cash crisis and an even larger budget problem next year.

BUDGET SOLUTIONS

Necessary Budget Adjustments: With \$11.2 billion less revenue that we anticipated just six weeks ago, it is necessary to immediately make cuts to our budget. **The Governor is proposing \$4.5 billion in cuts to the current-year budget.** All of the cuts are painful, but essential to ensure the state can protect vital services. The major budget adjustments are:

- Proposition 98 Education Funding. Because education funding is based on revenues, and revenues have fallen, funding to the Proposition 98 guarantee also drops. The Administration proposes total Proposition 98 expenditure reductions of \$2.5 billion, which keeps education funding at approximately \$122 million higher than the minimum guarantee.
- Higher Education. \$132 million in reductions are proposed for higher education segments, including \$65.5 million to the University of California system and \$66.3 million to the California State University System.
- Supplemental Security Income/State Supplementary Payment. Reduce SSI/SSP grants to the federal minimum effective March 1, 2009, which would result in General Fund savings of \$348.9 million in 2008-09
- CalWORKs. Modifying the Safety Net program, making certain benefits consistent with other CalWORKs benefits, instituting a face-to-face self-sufficiency review every six months for some CalWORKs families, and reducing CalWORKs grants by 10 percent effective March 1, 2009, would result in General Fund savings of \$273.9 million for the current fiscal year.
- Employee Compensation Changes. Requiring state employees take a one day furlough each month, eliminating two state holidays (combining Lincoln and Washington days into Presidents Day, and Columbus Day) and premium pay for hours worked on all remaining holidays, as well as eliminating the ability to count leave time as hours worked when computing overtime will result in General Fund savings of \$320 million in the current fiscal year. Additionally, the Governor proposes changes that would give state agencies the ability to establish a ten-hours-per-day, four-day workweek.
- Department of Corrections and Rehabilitation (CDCR): To realize saving in corrections, the administration proposes implementing parole reforms that protects public safety while cutting costs. This will be done mostly through parole reforms where high risk offenders who have committed serious, violent, or sexual crimes receive full supervision on parole while low-risk non-serious offenders receive no parole supervision after their release from prison. These reforms will save \$78.1 million in 2008-09 and \$677.6 million in 2009-10.
- Public Safety Grants: By proposing a funding realignment for public safety grants we are protecting funding for core public safety activities while realizing General Fund savings of \$250 million in 2008-09. Booking fees, the COPS and Juvenile Justice programs, and juvenile probation would receive stable, non-General Fund support going forward.
- Medi-Cal. Reducing California benefits to the level provided in most states, and ceasing to provide some optional benefits for adults will keep California providing more optional benefits than most states and will save the General Fund savings \$41 million in 2008-09 and \$129.9 million in 2009-10.

A Revenue Problem: While Governor Schwarzenegger has worked to fix the state's spending problem, and has kept state spending relatively flat for the past three budget cycles, the dramatic drop in our revenue projections over the past six weeks presents an extraordinary situation which, combined with the volatility of our tax system, creates a revenue problem. Raising taxes is never a good idea, but in this extraordinary situation, there is no question that new revenues must be brought into the state to protect education and vital services. **The Governor is proposing \$ 4.7billion in new revenues for the current budget year** in the form of:

- **A Temporary Sales Tax Increase:** A temporary increase in the state sales tax (from 5 percent to 6.5 percent) will generate additional sales tax revenues of \$ 3.5 billion in 2008-09 for the General Fund. It will also effectively protect significant education funding. At the end of three years, the state sales tax would revert to 5 percent.
- **Broadening the Sales and Use Tax to Include Certain Services:** Effective February 1, 2009, the sales and use tax rate will be applied to appliance and furniture repair, vehicle repair, golf, and veterinarian services. Effective March 1, 2009, the sales and use tax rate will be applied to amusement parks and sporting events. This is expected to generate additional General Fund sales tax revenue of \$357 million in 2008-09.
- **Oil Severance Tax:** Effective January 1, 2009, impose an oil severance tax upon any oil producer for the right to extract oil from the earth or water in this state. This brings California in line with other states. The tax shall be applied to the gross value of each barrel of oil at a rate of 9.9 percent and will generate additional tax revenues of \$528 million in 2008-09.
- **Increase Alcohol and Excise Taxes:** Alcohol excise taxes are proposed to be raised by five cents a drink beginning on January 1, 2009. This increase is estimated to raise \$293 million in 2008-09. Revenues from this tax will be used to fund critical drug and alcohol treatment and prevention services. Alcohol taxes were last raised in 1991.

PROGRAM REDUCTIONS

LEGISLATURE

- No specific reductions are proposed for the Legislature; however, the 2008-09 Budgets of other constitutional officers including the Governor's Office, the Attorney General, and the Judicial Branch included reductions in the range of ten percent. The Legislature's 2008-09 Budget reflects a reduction of a lesser level. The Administration hopes the Legislature can achieve savings that are more in line with the savings achieved by constitutional executive officers.

PUBLIC SAFETY GRANT PROGRAMS

Reductions for Various Public Safety Grants

- The proposal includes the elimination of a total of \$51.7 million General Fund in 2008-09 and \$103.5 million General Fund in 2009-10 for local public safety funding. This includes the following:
 - o \$14.7 million in 2008-09 and \$29.4 million in 2009-10 that is allocated to counties that operate juvenile camps and ranches. While these funds are available to all counties based on the number of beds occupied, these funds currently support the operation of 29 camps or ranches. These funds are administered by the CDCR.
 - o \$28.7 million in 2008-09 and \$57.4 million in 2009-10 for various local assistance programs administered by the Office of Emergency Services. Included in this reduction is funding for Vertical Prosecution Block Grants, Rural Crime Prevention, California Multi-jurisdictional Methamphetamine Enforcement Teams, the High Technology Theft Apprehension Program, Sexual Assault Felony Enforcement Teams, and various other public safety programs.
 - o \$8.3 million in 2008-09 and \$16.7 million in 2009-10 for grants to county sheriffs of specified small and rural counties for supplemental public safety funding.

HEALTH AND HUMAN SERVICES

To address the budget shortfall, the Administration proposes legislation to implement the following eligibility and benefit changes effective December 1, 2008.

Medi-Cal

- Reduce California benefits to the level of optional benefits provided in most states. Cease to provide the following optional benefits for adult (excluding children) dental,

PROGRAM REDUCTIONS

chiropractic, incontinence creams and washes, acupuncture, audiology, speech therapy, optometry/optometrists, optician/optical lab services, podiatry, and psychology services. California will still be providing more optional benefits than most states. General Fund savings of \$41 million result in 2008-09 and \$129.9 million in 2009-10.

- Limit benefits for newly qualified immigrants and immigrants who permanently reside under the color of law (PRUCOL) to the same level as currently provided for undocumented immigrants. Benefits retained include emergency services, pregnancy-related services, long-term care in a nursing facility, and breast and cervical cancer treatment. General Fund savings of \$29.7 million result in 2008-09 and \$144.4 million in 2009-10.
- Implement a monthly eligibility determination for emergency services for undocumented immigrants. This population currently receives up to six months of health services after an initial eligibility determination. This proposal would limit services to one month unless and until a subsequent emergency ensues. General Fund savings of \$15.1 million result in 2008-09 and \$73.5 million in 2009-10.
- Reduce the income level for new applicants to the Section 1931 (b) program to the pre-March 2000 standard of an average of approximately 72 percent of the federal poverty level, and define under-employment as the principal wage earner working less than 100 hours a month for persons applying for Section 1931 (b) and for the medically needy program. The Section 1931 (b) program provides Medi-Cal eligibility to families with low incomes who meet eligibility requirements. Parents with higher incomes who meet the resource and status requirements would be eligible for the Medi-Cal medically needy program with a share of cost. General Fund savings result of \$8.6 million in 2008-09, \$109 million in 2009-10, and ultimately \$342.5 million in 2011-12.
- Shift federal Safety Net Care Pool funding from designated public hospitals to portions of the California Children's Services, the Genetically Handicapped Persons, the Medically Indigent Adult Long-Term Care, and Breast and Cervical Cancer Treatment programs, which are eligible for these funds. No net reduction in services to beneficiaries will result from this shift. General Fund savings of \$3.7 million result in 2008-09 and \$54.2 million in 2009-10.
- Reinstate share of cost for Medi-Cal for aged, blind and disabled individuals with incomes over the SSI/SSP limits. Eligibility for Medi-Cal without a share of cost for beneficiaries previously expanded in January of 2001 from 69 percent up to 127 percent of the federal poverty level. This proposal would align eligibility with the SSI/SSP limits, and generate General Fund savings of \$43.8 million in 2008-09, \$203.7 million in 2009-10, and \$212.8 million annually thereafter.

**Three-Percent Reduction to Regional Center Operations
and Purchase of Services Payments**

- Discount payments to regional center service providers by three percent effective December 1, 2008. Certain types of payments will be exempt from this reduction, including supplemental rent/lease payments for consumers receiving supported and independent living services, and “usual and customary” rates for services such as bus fares. The department will also consider exemptions necessary to ensure the health and safety of consumers. Payments for supported employment services will not be discounted. Additionally, to assist in the implementation of the reduction to regional center operations funding, the Administration proposes to provide workload relief such as suspension of reporting requirements for staff salary schedules and contract expenditures, and suspension of the 1:66 coordinator-to-consumer ratio. For those consumers who are on the federal Home and Community Based Services Waiver, are three years of age and younger in the Early Start Program, or are consumers moving from a developmental center into the community, the coordinator-to-consumer ratio will not be suspended. These changes are expected to result in General Fund savings of \$34.2 million in 2008-09 and \$59.8 million in 2009-10.

Supplemental Security Income/State Supplementary Payment (SSI/SSP)

- Reduce SSI/SSP grants to the federal minimum effective March 1, 2009, which would result in General Fund savings of \$348.9 million in 2008-09 and \$1.1 billion in 2009-10. Currently, the SSI/SSP grant for an aged/disabled individual is \$870 per month and the grant for aged/disabled couples is \$1,524 per month. After provision of a federal cost-of-living adjustment in January, 2009, this proposal would reduce the monthly grants to \$830 and \$1,407 for aged/disabled individuals and couples, respectively.
- Eliminate the Cash Assistance Program for Immigrants effective March 1, 2009, which would result in General Fund savings of \$37.8 million in 2008-09 and \$114.1 million in 2009-10. This state-only program provides benefits to aged, blind, and disabled legal immigrants.

CalWORKs

- Modify the Safety Net program, by continuing benefits for families beyond their 60-month time limit only if they meet federal work participation requirements. This would result in General Fund savings of \$80.7 million in 2008-09 and \$242 million in 2009-10, assuming March 1, 2009 implementation.
- Provide cash aid for families receiving child-only benefits in a manner consistent with other CalWORKs families, for General Fund savings of \$76.8 million in 2008-09 and

PROGRAM REDUCTIONS

\$230.3 million in 2009-10. Under this proposal, aid to some families receiving child-only benefits would be limited to 60 months. These families include parents or caretakers who are undocumented non-citizens or certain types of felons.

- Institute a face-to-face self-sufficiency review every six months with a county worker for CalWORKs families who are not meeting work requirements. This proposal would result in General Fund savings of \$23.3 million in 2008-09 and \$94.8 million in 2009-10, assuming March 1, 2009 implementation. These reviews would assess what services or resources may be necessary to address barriers that are preventing participation and help remove a family's dependence upon public assistance.
- Reduce CalWORKs grants by 10 percent effective March 1, 2009, which would result in General Fund savings of \$93.2 million in 2008-09 and \$279.6 million in 2009-10. This proposal would reduce the maximum monthly grant for a family of three from \$723 to \$651.

In-Home Supportive Services (IHSS)

- Provide IHSS domestic and related services to individuals with the highest levels of need, as measured by a functional index score of 4 or higher. This proposal would result in General Fund savings of \$23.1 million in 2008-09 and \$71.4 million in 2009-10, assuming March 1, 2009 implementation. The provision of other IHSS services to all eligible consumers regardless of their functional index score would not be impacted.
- Focus the state buyout program for IHSS recipients whose Medi-Cal share of cost is higher than their IHSS share of cost on persons with the most severe needs. This proposal would result in General Fund savings of \$12.3 million in 2008-09 and \$37 million in 2009-10, assuming March 1, 2009 implementation. Under this proposal, IHSS recipients with average functional index scores below 4 would be required to pay for more of their services before qualifying for subsidies.
- Limit state participation in the wages of IHSS workers to the state minimum wage plus \$0.60 per hour for health benefits. Assuming March 1, 2009 implementation, this proposal would result in General Fund savings of \$82.9 million in 2008-09 and \$248.8 million in 2009-10.

California Food Assistance Program (CFAP)

- Eliminate the CFAP effective July 1, 2009, which would result in General Fund savings of \$30.3 million in 2009-10. This state-only program provides food benefits to low-income legal non-citizens.